

Municipal Electric Power



Association of Kentucky

Serving those who power Kentucky cities

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June 9, 2005

HAND DELIVERY

Ms. Beth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40601

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JUN 09 2005

PUBLIC SERVICE
COMMISSION

**Re: *In the Matter of: An Assessment of Kentucky's Electric Generation,
Transmission, and Distribution Needs
PSC Administrative Case No. 2005-00090***

Dear Ms. O'Donnell:

Enclosed for filing is an original and ten (10) copies of comments prepared for the June 14, 2005 Technical Conference for the Municipal Electric Power Association of Kentucky.

Sincerely,

Elizabeth Marshall
Executive Director and
Counsel for the Municipal Electric Power
Association of Kentucky

Enclosure

cc: All Parties of Record (with enclosures)

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Commonwealth of Kentucky
Before the Public Service Commission

In the Matter of)
AN ASSESSMENT OF)
KENTUCKY'S ELECTRIC)
GENERATION, TRANSMISSION)
AND DISTRIBUTION NEEDS)

Administrative Case No. 2005-00090

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PUBLIC SERVICE
COMMISSION

COMMENTS FROM THE MUNICIPAL ELECTRIC POWER
ASSOCIATION OF KENTUCKY

The Municipal Electric Power Association of Kentucky, commonly known as MEPAK, is an association of twenty-eight municipally owned and operated electric power systems. There are thirty public power cities in Kentucky. Bardstown and Henderson were established more than one hundred years ago. Most have been in operation for more than sixty years. The City of Berea became a municipal electric system in January, 2005.

Kentucky's public power systems are primarily distributors of electricity. They purchase wholesale electricity from private utility partners (17) or they are served by TVA (13). Three municipal systems have generating capacity: Henderson, Owensboro and Paris to a much smaller extent. Both Henderson and Owensboro have made strong commitments to the technology that allows them to use Kentucky coal.

The Role of Public Power

If we are to maintain low electricity costs in Kentucky, support of Kentucky's municipal electric systems is one important key. These are Kentucky based electric systems, committed to the economic advantages of low cost power for their communities and the Commonwealth. As mergers in the industry reduce the Kentucky connection of suppliers of power, the Kentucky

based electric systems become ever more important in the overall goal of maintaining low cost power.

Public power systems are reliable, highly efficient, low cost operations that often establish the baseline against which other utilities must compete, thus keeping rates low for all rate payers. Some attribute the low cost of public power systems to tax advantages. All utilities have tax advantages: incentives, tax credits, and deferred taxes for investor owned utilities; the RUS for electric cooperatives. The fact is that utility operation is expensive and is important enough to have tax advantages regardless of the utility category.

The reasons for the economies of public power are simple. The small size, the much smaller public sector salaries, and the freedom to focus on service and reliability rather than shareholder returns are all reasons that public power continues to be competitively priced.

Accountability

Public power systems are regulated by locally elected officials or by a board or commission appointed by elected officials solely for the purpose of governing the electric system. The governance structure depends upon the statute under which the system has been organized. There is a high degree of accountability at the local level where citizens are responsible for the essential service of electricity to their fellow citizens. It is the day in and day out accountability that comes only with local government.

National Perspective

There are 2,008 public power utilities in the U.S. serving over 40 million citizens, amounting to about 14 percent of the country's total electric load. Public power systems own 13 percent of the nation's generating capacity. Large cities such as Los Angeles, Seattle, Jacksonville and Cleveland are public power cities, but most are smaller cities. They have a

commitment to assist each other in major storms or disaster. Paducah Power sent crews to Florida to restore power after two hurricanes in the summer of 2004. Bowling Green Municipal Utilities also sent a crew and Owensboro Municipal Utilities was standing by.

Top Issues Facing the Industry in Kentucky

Mergers in the Industry

Mergers and acquisitions in the industry mean that Kentucky consumers are no longer served by Kentucky corporate citizens that have a unique stake in the Commonwealth. Invariably, multi-state, even international corporations begin to complain at the federal level about state control and inconsistencies in state regulation. How this will play out in attention to infrastructure, customer service, cost and the control that Kentuckians have over this vital service remains to be seen, but it has the potential to be a significant issue in the future.

Transmission

Cost of transmission looms as a significant issue for all utilities. The RTO's are proving to be costly bureaucracies with few of the promised returns apparent at this stage. Maintaining reasonable transmission costs is particularly important to transmission dependent utilities such as municipal power systems that have helped to build and capitalize the transmission infrastructure.

Transmission access in the TVA region for those municipal power systems that want options in power supply remains unresolved, though efforts to resolve this issue continue.

Barriers to Meeting the Future Investment Needs in Electric Power Infrastructure

Joint Action Legislation

Joint action legislation is industry specific legislation that would allow municipal systems to join together to leverage their capacity and resources to contribute to the goal of making Kentucky an energy center for the nation and ensure long term low cost electricity.

There are seventy municipal joint action agencies now operating in thirty-six states. Most were established more than twenty years ago. These joint action agencies have been successful in using their combined capacity to acquire high grade financing that has enabled them to contribute to the availability of low cost, reliable wholesale electricity in their states, particularly in the Southeast where Kentucky must compete. Such legislation would allow Kentucky's municipal power systems to replicate this successful model. Collectively, the municipal electric power systems can make a significant contribution to the development of infrastructure in Kentucky.

The goal of long term low cost electricity in Kentucky may well depend upon the strength of the Kentucky based utilities, including municipal electric power systems. We need to get past the question of whether there is a place for public power in the electric industry. Citizens have already made that decision and have been reaffirming it for a century. The question is how to empower these systems to leverage their capacity and resources to bring working capital to bear on the future electricity needs of the Commonwealth.

Respectfully submitted,



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